STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SelectHealth, Inc.

of

Murray, Utah

as of

December 31, 2013

TABLE OF CONTENTS

SALUTATION 1
SCOPE OF EXAMINATION 1
Period Covered by Examination 1
Examination Procedure Employed 1
Status of Prior Examination Findings 2
SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS 2
SUBSEQUENT EVENTS 3
ORGANIZATION HISTORY 3
General 3
Dividends and Capital Contributions 4
CORPORATE RECORDS 4
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE 5
Holding Company 9
FIDELITY BONDS AND OTHER INSURANCE 13
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS 13
GROWTH OF THE ORGANIZATION 14
LOSS EXPERIENCE 14
REINSURANCE 14
ACCOUNTS AND RECORDS 15
STATUTORY DEPOSITS 16
FINANCIAL STATEMENTS 16
ASSETS 17
LIABILITIES, SURPLUS AND OTHER FUNDS 18
STATEMENT OF REVENUE AND EXPENSES 19
RECONCILIATION OF CAPITAL AND SURPLUS 20
NOTES TO FINANCIAL STATEMENTS 21
ACKNOWLEDGEMENT 21

November 23, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

SelectHealth, Inc.
Murray, Utah

hereinafter referred to in this report as "the Organization or SHI," and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

SHI was last examined as of December 31, 2009. The current examination included a review to determine the status of recommendations noted in the previous examination report of the Organization dated February 17, 2011. All comments and recommendations reported in the previous examination report were satisfactorily addressed.

The current examination covers the period from January 1, 2010 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's

compliance with Statement of Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Organization retained the services of a certified public accounting firm, KPMG, LLP, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process. In order to develop an examination plan tailored to the Organization's individual operating profile, the initial phase of the examination focused on evaluating the Organization's business approach as well as governance and control environment. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risks for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit. Interviews were held with senior management and the Board of Trustees of the Organization to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risks, examination procedures were reduced where considered appropriate.

The examination relied on the findings of the actuarial firm of Taylor- Walker & Associates, Inc. contracted by the Department to determine the adequacy of Loss Reserves, Loss Adjustment Expenses, Premium Deficiency Reserves, and Pricing Policy.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination workpapers.

Status of Prior Examination Findings

The last examination was completed as of December 31, 2009. Items of significance noted in the prior examination report were adequately addressed by the Organization.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

As of August 31, 2014, the Organization had a number of claims over 30 days due for either payment or denial. The Organization is not in compliance with Utah Code Annotated (U.C.A.) § 31A-26-301.6 (3) which requires that, except for certain circumstances, an insurer shall timely pay every valid insurance claim within 30 days on which the insurer receives a written claim or deny the claim and provide a written explanation for the denial. The Organization indicated that in 2014, it experienced a large jump in membership through Medicare Advantage and new ACA compliant plans sold on and off of Exchanges. This growth in membership with higher

utilization (in many cases pent-up demand from a previous lack of coverage), created an abnormal spike in claims volume. The Organization has taken actions to increase claims processing resources, increase auto-adjudication rates and to more closely monitor potential claims backlogs, and is in compliance with U.C.A. § 31A-26-301.6 (8) which requires the insurer to pay a late fee to affected providers.

We recommend the Organization continue to work towards full compliance, as prescribed by U.C.A. § 31A-26-301.6 (3) (ACCOUNTS AND RECORDS).

SUBSEQUENT EVENTS

The Affordable Care Act (ACA)

On January 1, 2014, the Organization began offering new ACA compliant individual and small employer contracts in both Utah and Idaho. These ACA contracts will result in significant premium stabilization receivables from federal programs over the next three years. Also beginning January 1, 2014, the Organization began accruing significant liabilities for ACA taxes and fees assessed on all fully insured contracts.

New Management Services Agreement

On March 27, 2014, the Organization requested permission to enter into a new Management Services Agreement with IHC Health Services for the Organization to provide administrative services for the Intermountain retiree welfare benefit plan.

ORGANIZATION HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a Board of Trustees, which in turn created Intermountain Health Care, Inc. (IHC), a nonprofit corporation, to own and operate the hospital system. In 1982, IHC Hospitals, Inc., subsequently renamed IHC Health Services, Inc., was established as a subsidiary of IHC for the purpose of operating the hospital holdings.

On December 27, 1983, IHC incorporated IHC Health Plans, Inc. (HPI) under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, for the purpose of developing and administering financial mechanisms for its network of health care services. HPI began operations as a nonprofit preferred provider organization, and on December 6, 1985, became licensed as an HMO. HPI formed and became the sole controlling member of IHC Care, Inc., a non-profit HMO in 1985, and IHC Group, Inc. a non-profit HMO in 1991; both of which were merged into HPI during 2000. In 1992, HPI formed a wholly owned for-profit life insurance company, IHC Benefit Assurance Company (IBAC), Inc. In 2006 HPI changed its name to SelectHealth, Inc., and IBAC changed its name to SelectHealth Benefit Assurance Company, Inc. (herein referred to as SHBAC).

The Organization obtained a Third Party Administrator (TPA) license to administer life, accident and health insurance on September 1, 1984, and currently administers uninsured accident and health plans through this license.

Having lost its federal income tax exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC), the Organization applied for and received tax exempt status under Section 501(c)(4) of the IRC on November 1, 2005, retroactive to tax year 1987.

SHI is licensed and authorized to conduct HMO business in the states of Utah and Idaho. It markets traditional HMO and Point of Service (POS) plans in Utah, and has recently begun marketing its products in Idaho. SHI covers commercial large and small employer groups, as well as individuals. The Organization also covers government sponsored programs such as CHIP, Medicaid, and Medicare.

Dividends and Capital Contributions

There have been no changes to paid-in surplus since the prior examination. Additional paid in and contributed surplus has remained the same from 2006-2013 at $30,125,275.

Mergers and Acquisitions

There have been no mergers or acquisitions since the prior examination.

CORPORATE RECORDS

In general, the review of the Board minutes indicated that the minutes support the transactions of the Organization and the actions taken by its officers. The Organization's bylaws define a quorum as a majority of the Board. A quorum was achieved at all of the meetings.

The previous examination report as of December 31, 2009, dated February 11, 2011, was distributed to the Board of Trustees and approved on May 11, 2011, in accordance with U.C.A. § 31A-2-204(8).

There were various changes to the Organization's articles of incorporation since the last examination.

In reviewing the articles of incorporation and the bylaws for all changes and for compliance with Utah insurance laws and rules, the previous examination encountered various issues related to the Organization's maintenance of the articles of incorporation and bylaws. U.C.A. § 16-6a-1601 sets forth the requirements for maintaining permanent corporate records. The Organization was unable to produce evidence that it was in compliance with U.C.A. § 16-6a-1601(1) lacking certain permanent records; was unable to produce in written form within a reasonable time, records of all actions taken since January 1, 2007, pursuant to U.C.A. § 16-6a-1601(4); and did

not maintain a copy of all corporate records at its principal office as required by U.C.A. § 16-6a-1601(5).

During April 2010, the Organization moved to its new office location in Murray, Utah. Neither the articles of incorporation nor the bylaws were amended to reflect the change in location of the principal office, as required by U.C.A. § 16-17-202 as applied to an HMO by U.C.A. § 31A-8-202(2).

In order to resolve the various issues related to prior examination of the articles of incorporation and bylaws, and to bring the Organization into compliance with U.C.A. § 16-6a-1601, § 16-17-202, § 31A-5-219, § 31A-8-202, and § 31A-8-204, the following actions were taken. The Executive Committee of the Board of Trustees and the sole member, Intermountain Health Care, Inc., approved new Articles of Amendment to the Articles of Incorporation, Amended and Restated Articles of Incorporation, and amended bylaws, superseding all previous versions. The new documents were immediately filed with the Department on October 14, 2010, and the Articles of Amendment to the Articles of Incorporation and the Amended and Restated Articles of Incorporation were approved by the insurance commissioner on November 9, 2010, as required by U.C.A. § 31A-5-219.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicated the number of trustees may be no less than four and no more than thirty. The following persons served as trustees of the Organization as of December 31, 2013:

Name and Location	Title and Principal Occupation
Patricia Rae Richards Salt Lake City, UT	President and Chief Executive Officer SelectHealth, Inc., SelectHealth Benefit Assurance Company, Inc.
Douglas Charles Black Salt Lake City, UT	Retired
Mark Richard Briesacher, MD Salt Lake City, UT	Sr. Administrative Medical Director Intermountain Medical Group
Keven Jay Jensen Sandy, UT	Retired
Edward Gerald Kleyn Ogden, UT	Retired
Daniel Gerald Gomez Sandy, UT	President Gomez Corp. Financial Advisors

Barbara Jean Ray Salt Lake City, UT	Chief Executive Officer Vantage Point Advisors
Michael Maughan Smith Holladay, UT	COO & General Counsel First American Title Insurance Co.
Charles Wallace Sorenson Jr., MD Salt Lake City, UT	President and Chief Executive Officer Intermountain Healthcare
Scott David Sperry Sandy, UT	Executive VP and COO O.C.Tanner Company
Andrea Polle Wolcott Salt Lake City, UT	Retired
Albert Rene' Zimmerli Sandy, UT	Executive Vice President and CFO Intermountain Healthcare

The composition of the Board of Trustees meets the requirements of the Organization's bylaws.

The Organization's bylaws provide for officers to consist of a President, a Vice President, a Secretary, a Treasurer, and such other officers as shall be determined by a resolution of the Board of Trustees. The officers of the Organization as of December 31, 2013, were as follows:

Name	Title
Patricia Rae Richards	President and Chief Executive Officer
Mark Andrew Brown	Vice President, Chief Financial Officer, and Treasurer
Stephen Loren Barlow, MD	Vice President, and Chief Medical Officer
Jerry Roy Edgington	Vice President, and General Manager - Idaho
James Murphy Winfield	Vice President, and Chief Marketing Officer
Robert Letcher White	Vice President, and Chief Operating Officer
Gregory John Matis	Secretary

Audit & Compliance Committee Members

Edward Kleyn, Chair
Scott Sperry, Vice Chair
Barbara Ray
Andrea Wolcott
Douglas Black, ex officio

(Effective April 2014, Edward Kleyn resigned and was replaced by Scott Sperry)

Executive Committee Members

Douglas Black, Chair
Barbara Ray, Vice Chair
Albert Zimmerli
Patricia Richards

(Daniel Gomez was added to the Committee effective June 2014)

Appeals Committee Members

Keven Jensen, Chair
Michael Smith, Vice Chair
Stephen Taylor, MD
Christine Nefcy, MD, Alternate
Andrea Wolcott, Alternate
Doug Black, ex officio

Finance Committee Members

Barbara Ray, Chair
Edward Kleyn
Scott Sperry
Andrea Wolcott
Albert Zimmerli
Doug Black, ex officio

(Effective April 2014, Edward Kleyn resigned)

Investment Committee

Barbara Ray, Chair
Douglas Black
Jane Carlile
Spencer Eccles
Steve Huebner
Gary Hunter
Roy Jespersen
Kent Misener
Steven Thorley
Scott Anderson, ex officio

Community Relations Committee

Daniel Gomez, Chair
Andrea Wolcott, Vice Chair
Mikelle Moore
Michael Smith
Douglas Black, ex officio

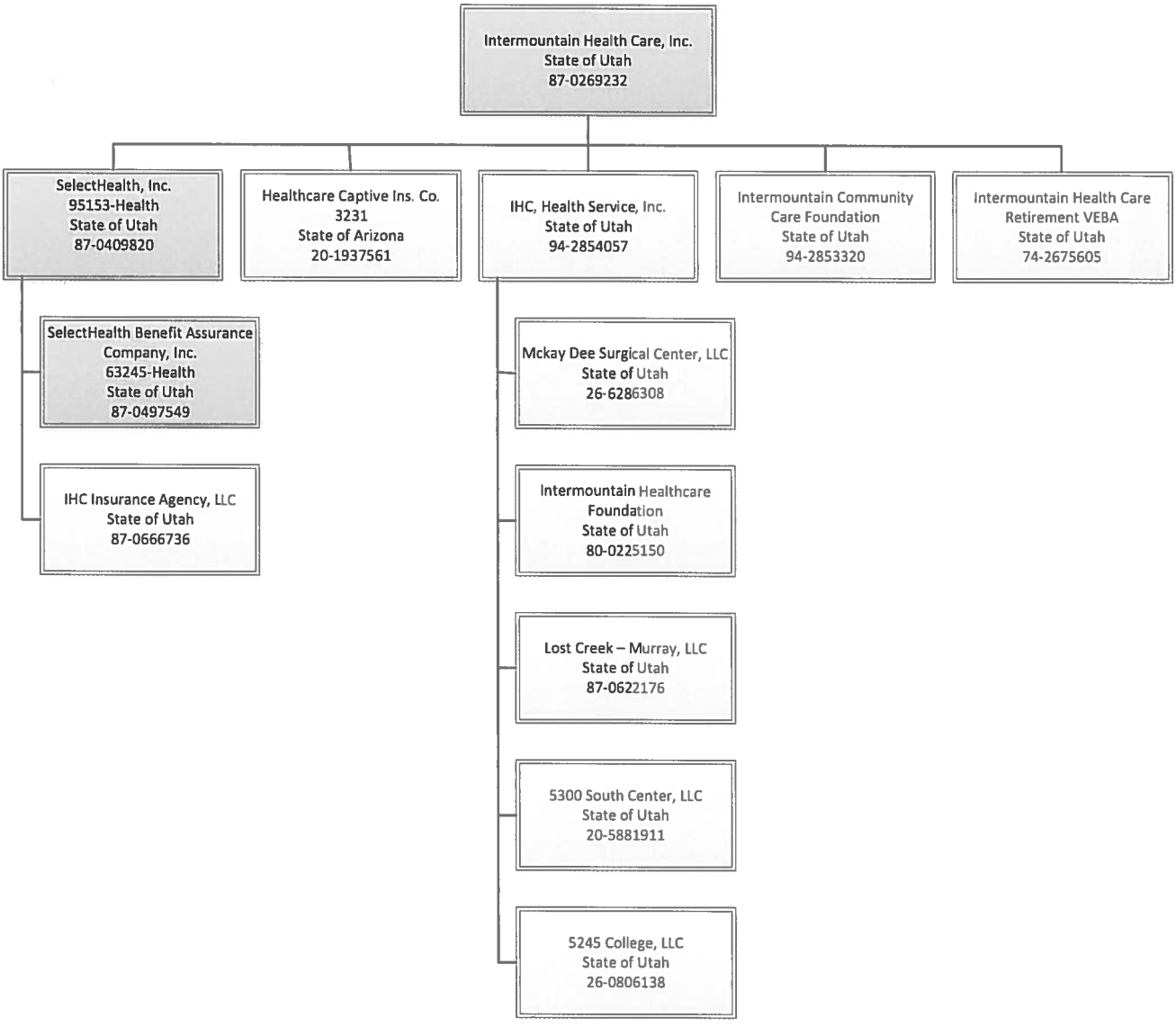
Quality Assurance Committee Members

Daniel Gomez, Chair
Mark Briesacher, M.D., Vice Chair
Beth Cole, Ph.D., APRN, FAAN
Keven Jensen
Doug Black, ex officio

Holding Company

The Organization is controlled by IHC. The following is an abbreviated organizational chart derived from the Annual Statement, Schedule Y as of December 31, 2013:

ORGANIZATIONAL CHART
AS OF
12/31/13



IHC is a Utah nonprofit charitable corporation which, through its affiliated companies, provides health care and related services to communities and individuals in the intermountain region. IHC Health Services, Inc. (IHCHS) is a Utah nonprofit corporation that owns and manages hospitals, clinics and other health care related operations, and provides medical and administrative services to the Organization. The Organization is the parent to SHBAC, a Utah life and health insurance company that offers stop loss coverage to the Organization's uninsured plans. IHC Insurance Agency, LLC was formed to administer agent and agency agreements associated with the Organization's business.

The following agreements and arrangements were in place with affiliates during the examination period and as of December 31, 2013:

Administrative Services Agreement with IHCHS
SHI entered into an updated one year automatically renewable administrative services agreement with IHCHS on January 1, 2010. Pursuant to the agreement, the Organization serves as a licensed third party administrator on behalf of the self-funded health benefit plans provided to employees of IHCHS. Services provided by the Organization include set-up, standard administrative, eligibility verification, health care claims adjudication, member and provider services, appeals administration, utilization management, and reporting and privacy administration. There are also other services provided for an additional fee as well as optional services if chosen. Fees paid by IHCHS are according to a fee schedule based on the service provided.

Administrative Services Agreement with SHBAC
SHI entered into an updated one year automatically renewable administrative services agreement with SHBAC on February 7, 2014. The relationship between SHI and SHBAC as outlined in this agreement will form the basis for any administrative or management services that result from SHI's issuance of insurance in states other than Utah and Idaho. Pursuant to the agreement, the Organization agrees to provide certain finance, insurance, risk management, legal, compliance, product support, facilities management and information system services. SHBAC agreed to provide support of the national insurance arrangement; stop-loss coverage, short-term transitional individual coverage, and pharmacy benefit management services. Payments for services provided by either party are based on the fair value of those services and are paid in such intervals as the parties agree, but in no even less than annually.

Asset Exchange Agreement with IHCHS
SHI entered into an asset exchange agreement with IHCHS on January 15, 2007. In 2003, IHCHS entered into a self-liquidity arrangement with Standard & Poor's, which gave a short-term rating of A1 to a 2003 bond issue of $308 million. As part of the arrangement, IHCHS is required to maintain a certain level of highly liquid fixed income assets on hand and report to S&P on a monthly basis the value of those assets as well as a detailed plan on how those assets could be made available to sellers of IHCHS bonds should these bonds fail to remarket. While the overall IHCHS portfolio has grown significantly since 2003, the net effect of the changes resulted in having less liquid fixed income assets necessary to support the self-liquidity arrangements. To remedy the situation, S&P proposed that IHCHS report the excess surplus of the Organization's fixed income portfolio to provide available liquidity as required in the

arrangement. By reporting the excess surplus to S&P IHCHS is committing those assets to the bondholders should IHCHS bonds fail to remarket for whatever reason. In order to not disadvantage the Organization in any way by reporting the liquid assets to S&P, IHCHS drafted this "asset exchange agreement" which essentially guarantees SHI that if their liquid funds are ever needed to support a failed remarketing event, that IHCHS will simultaneously transfer IHCHS equity assets of equal value to the Organization and then return them to their original asset allocation as soon as possible.

The asset exchange agreement has been reviewed by the Department which has issued a letter of "non-disapproval" concerning the arrangement. Additionally, SHI's senior management and key members of their Board of Trustees have been advised of the arrangement and have subsequently approved. Before the asset exchange agreement becomes effective, the SHI Board of Trustees will be given the opportunity to approve or reject the agreement.

Facility Services Agreement with IHCHS (Commercial)
SHI entered into an updated facility services agreement with IHCHS on January 1, 2010. Pursuant to the agreement, IHCHS arranges for the healthcare services for the Organization's general commercial plan holders in the licensed facilities it operates in the states of Utah and Idaho. The agreement details the fees and charges that the Organization will pay for specific services provided for individual members of the plan.

Facility Services Agreement with IHCHS (Medicaid)
SHI entered into an updated facility services agreement with IHCHS for the Organization's Community Care Medicaid Health Benefit Program on January 1, 2013. Pursuant to the agreement, IHCHS arranges for the healthcare services for members of the Organization's Community Care Medicaid Health Benefit Program in the licensed facilities it operates. The agreement details the fees and charges that the Organization will pay for specific services provided for individual members of the plan.

Facility Services Agreement with IHCHS (Medicare Advantage)
SHI entered into an updated facility services agreement with IHCHS for the Organization's Medicare Advantage HMO Program on January 1, 2013. Pursuant to the agreement, IHCHS arranges for the healthcare services for members of the Organization's Medicare Advantage HMO Program in the licensed facilities it operates. The agreement details the fees and charges that the Organization will pay for specific services provided for individual members of the plan.

Facility Services Agreement with IHCHS (Federal)
SHI entered into an updated facility services agreement IHCHS for the Organization's Federal Employee Health Benefits Program on January 1, 2011. Pursuant to the agreement, IHCHS arranges for the healthcare services for members of the Organization's Federal Employee Health Benefits Program in the licensed facilities it operates. The agreement details the fees and charges that the Organization will pay for specific services provided for individual members of the plan.

Ground Lease with IHCHS
SHI entered into a 30 year, renewable ground lease agreement with IHCHS on July 28, 2008. Pursuant to the agreement and in consideration of the Organization's covenant to pay the rent and other sums provided in the agreement, IHCHS agrees to lease to the Organization the property on which the Organization's main office building resides. Annual base rent associated with this agreement is $424,949 paid in monthly installments.

Management Services Agreement with IHCHS
SHI entered into an updated one year, automatically renewable management services agreement with IHS on February 7, 2014. Pursuant to the agreement, IHCHS will provide to the Organization certain finance, human resource, insurance, risk management, legal, compliance, facility and information systems services. The Organization will provide to IHS certain financial, actuarial, support and staffing services. Payments for services provided by either party are based on the fair value of those services and are paid in such intervals as the parties agree, but in no event less than annually.

Parking Structure Use Agreement with IHCHS
SHI entered into a 30 year, renewable, parking structure use agreement with IHCHS on December 15, 2009. Pursuant to the agreement, the Organization has the right to access the parking structure and related improvements on the property on which the Organization's main office building resides. Annual base rent associated with this agreement is $357,188 paid in monthly installments.

Participating Provider Services Agreement (IHC Rehabilitation Services)
SHI entered into a participating provider services agreement with IHC Rehabilitation Services (Rehab), a d/b/a of IHC Health Services, Inc. on July 1, 2003. Pursuant to the contract, Rehab acts as a network participating provider. Rehab primarily provides in-home services.

Participating Provider Services Agreement (Intermountain Medical Group)
SHI entered into a participating provider services agreement with Intermountain Medical Group (Medical), a division of IHC Health Services, Inc. on July 1, 2003. Pursuant to the contract, Services acts as a network participating provider. Medical primarily provides services to those accessing Intermountain facilities.

Prescription Drug Services Agreement with IHCHS (Mail Order)
SHI entered into an updated one year, automatically renewing mail order prescription drug and pharmacy services agreement with IHCHS on January 1, 2014. Pursuant to the agreement, IHCHS provides prescription drug and pharmacy services to those enrolled in the Organization's health benefit plans.

Prescription Drug Services Agreement with IHCHS
SHI entered into an updated one year, automatically renewing prescription drug and pharmacy services agreement IHCHS on January 1, 2012. Pursuant to the agreement, IHCHS provides prescription drug and pharmacy services to those enrolled in the Organization's health benefit plans.

Select Value Risk Share Agreement with Intermountain Medical Group
SHI entered into a select value risk share agreement with Intermountain Medical Group on March 17, 2008. Pursuant to the agreement, Medical Group agrees to allow the Organization to withhold a percentage of the allowed reimbursement for specified services provided by a Medical Group provider to a Select Value member. In exchange, the Organization agrees to share operating gains from the product with Medical Group as outlined in the Calculation of Risk Share section of the agreement. The finalized calculation of the risk share and payment for a given year will occur in the month of June following the end of the year, and will include five (5) months of run out experience.

Statement of Work for Delegated Credentialing Activities with IHCHS
SHI entered into a three-year automatically renewable statement of work for delegated credentialing activities with IHCHS on February 13, 2012. This statement outlines the credentialing activities performed by IHCHS for the Organization in conjunction with the administrative services agreement between the Organization and IHCHS.

Valley Center Lease with 5300 South Center, LLC
SHI entered into a five-year office lease agreement with 5300 South Center, LLC on February 28, 2012. Pursuant to the agreement and in consideration of the rents and covenants in the agreement, the Organization has leased space in the office building at 5373 Green Street, Murray City, Utah. Annual rent is payable in twelve equal monthly installments of $39,488.56 per month for months 1 through 24; $40,278.33 per month for months 25 through 36; $41,083.90 per month for months 37 through 48 and $41,905.58 per month for months 49 through 60. In addition to the basic rent, the Organization pays a proportional share of operation and maintenance costs.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Organization participated in fidelity bond coverage of $5,000,000 under a commercial crime insurance policy issued to IHC and its subsidiaries and affiliates. The amount of coverage met the minimum coverage suggested by the NAIC.

The Organization was also insured under various other IHC insurance policies, including property, general liability, workers' compensation, errors and omissions, and directors' and officers' liability insurance.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization's employees are offered certain benefits, including a defined benefit pension plan, group medical and life insurance, a 401(k) plan, flexible spending accounts, short and long term disability and life insurance, and group rates for automobile, home, and long term care insurance.

GROWTH OF THE ORGANIZATION

The following table depicts the Organization's financial growth throughout the examination period:

	2013	2012	2011	2010
Admitted Assets	$767,588,070	$573,290,760	$487,715,235	$430,383,717
Liabilities	302,777,075	197,255,545	160,704,151	150,632,958
Surplus	464,810,995	376,035,215	327,011,084	279,750,759
Net Income	50,786,886	33,358,558	51,273,370	33,660,427

Overall, the Organization had steady growth during the period covered by the examination.

LOSS EXPERIENCE

The following table depicts the Organization's loss experience during the examination period:

		2013	2012	2011	2010
Premiums Earned		$1,457,444,529	$1,159,461,153	$1,179,691,012	$1,075,668,599
Claims		1,272,124,670	1,007,764,244	1,042,710,226	948,013,220
Loss ratio		87%	87%	89%	88%
Medical Loss Ratio per Organization	Individual	81%	81.4%	83.2%	N/A
	Small Employer	83%	82.5%	82.4%	N/A
	Large Employer	91.2%	91.7%	92.5%	N/A
Medical Loss Ratio Required by ACA	Individual	80%	80%	80%	N/A
	Small Employer	80%	80%	80%	N/A
	Large Employer	85%	85%	85%	N/A

Loss ratios and medical loss ratios appear to be reasonable.

REINSURANCE

As of the examination date, an excess of loss reinsurance agreement with HM Life Insurance Company was in effect. The Organization's initial retention is the first $1,000,000 of loss incurred at an IHC hospital, or the first $500,000 of loss incurred at other hospitals, per covered person during the contract year. The reinsurer assumes the following, with a maximum of $2,000,000 for each covered person per contract year.

- 90% of eligible losses, after certain reinsurance limitations, for approved transplant services performed in a hospital in which the reinsurer or the Organization had negotiated arrangements. The Organization's arrangements were required to be approved by the reinsurer.
- 50% for eligible losses, after certain reinsurance limitations, for transplant services performed in a hospital with which neither the reinsurer nor the Organization had negotiated arrangements and/or the Organization's arrangements were not approved by the reinsurer.
- 90% of eligible losses for services other than transplant services, after certain reinsurance limitations, for services performed in a hospital.

ACCOUNTS AND RECORDS

The Organization's general ledger is on a system developed in-house, located on an IBM iSeries, and maintained and administered by IHCHS. Premium and claims transactions are automatically fed to the general ledger through the primary policy and claims administrative system, FACETS. No significant issues or deficiencies with the computerized system were noted by the examiners.

An examination trial balance was prepared from the Organization's computerized general ledger as of December 31, 2013. Account balances were traced to the annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

An independent certified public accounting firm, KPMG LLP, audited the Organization's records for the years ended 2010, 2011, 2012, and 2013. Audit reports generated by the auditors and workpapers were made available for examination use.

As of August 31, 2014, the Organization had a number of claims over 30 days due for either payment or denial. The Organization is not in compliance with Utah Code Annotated (U.C.A.) § 31A-26-301.6 (3) which requires that, except for certain circumstances, an insurer shall timely pay every valid insurance claim within 30 days on which the insurer receives a written claim or deny the claim and provide a written explanation for the denial. The Organization indicated that in 2014, it experienced a large jump in membership through Medicare Advantage and new ACA compliant plans sold on and off of Exchanges. This growth in membership with higher utilization (in many cases pent-up demand from a previous lack of coverage), created an abnormal spike in claims volume. The Organization has taken actions to increase claims processing resources, increase auto-adjudication rates and to more closely monitor potential claims backlogs and is in compliance with U.C.A. § 31A-26-301.6 (8) which requires the insurer to pay a late fee to affected providers.

We recommend the Organization continue to work towards full compliance, as prescribed by U.C.A. § 31A-26-301.6 (3).

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was $14,674,445 pursuant to U.C.A. § 31A-8-211(1) for health maintenance organizations. The examination confirmed the Organization maintained an adequate statutory deposit consisting of various bonds guaranteed by the U.S. Government with a total market value of $17,588,275 and par value of $17,557,818.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of the financial statements.

SelectHealth, Inc.
ASSETS
as of December 31, 2013

	Net Admitted Assets	Notes
Bonds	$ 343,808,907	
Preferred Stocks	693,000	
Common Stocks	319,738,763	
Cash and Short-Term Investments	61,426,304	
Receivables for Securities	12,104,474	
Investment Income Due and Accrued	1,731,055	
Uncollected Premiums and Agents' Balances	7,838,114	
Accrued Retrospective Premiums	2,699,793	
Amounts Recoverable from Reinsurers	357,000	
Amounts Receivable Relating to Uninsured Plans	7,928,929	
Electronic Data Processing Equipment and Software	1,789,786	
Health Care and Other Amounts Receivable	7,471,945	
Total Assets	$ 767,588,070	

SelectHealth, Inc.
LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2013

			Notes
Claims Unpaid (less $0 reinsurance ceded)	$	170,477,479	
Accrued Medical Incentive Pool and Bonus Amounts		6,089,779	
Unpaid Claims Adjustment Expenses		10,078,000	
Aggregate Health Policy Reserves		23,471,970	
Premiums Received in Advance		30,330,860	
General Expenses Due or Accrued		15,242,614	
Amounts Withheld or Retained for the Account of Others		1,395,474	
Remittances and Items Not Allocated		195,390	
Payable to Parent, Subsidiaries and Affiliates		10,520,774	
Payable for Securities		28,035,399	
Liability for Amounts Held Under Uninsured Plans		6,939,336	
Total Liabilities		302,777,075	
Aggregate Write-ins for Special Surplus Funds		10,000,000	
Gross Paid-in and Contributed Surplus	$	30,125,275	
Unassigned Funds (surplus)		424,685,720	1
Total Capital and Surplus		464,810,995	
Total of Liabilities, Surplus, and Other Funds	$	767,588,070	

SelectHealth, Inc.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2013

			Notes
Net premium income	$	1,457,444,529	
Change in Unearned Premium Reserves		(1,249,414)	
Aggregate write-ins for Other Health Care Revenues		1,853,728	
Aggregate write-ins for Other Non-Health Revenues		3,399,445	
Total Revenues	$	1,461,448,288	
Hospital and Medical:			
Hospital/medical Benefits		947,083,806	
Other Professional Services		43,566,939	
Emergency Room and Out-of-area		92,079,329	
Prescription Drugs		147,449,359	
Aggregate Write-ins for Other Hospital and Medical		16,381,092	
Incentive Pool, Withhold Adjustments and Bonus Amounts		26,294,327	
Total Hospital and Medical Expenses	$	1,272,854,852	
Less:			
Net Reinsurance Recoveries		(730,182)	
Total Hospital and Medical	$	1,272,124,670	
Claims Adjustment Expenses		69,325,476	
General Administrative Expenses		84,473,341	
Increase In Reserves		9,180,698	
Total Underwriting Deductions	$	1,435,104,185	
Net Underwritng Gain or (loss)	$	26,344,103	
Net Investment Income Earned		7,795,058	
Net Realized Capital Gains (losses)		16,647,725	
Net Investment Gains (losses)	$	24,442,783	
Net Income (loss) after Capital Gains Tax	$	50,786,886	
Federal and Foreign Income Taxes Incurred		0	
Net Income (loss) After Capital Gains Tax	$	50,786,886	

SelectHealth, Inc.
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2013

	2010	2011	2012	Per Exam 2013	Notes
Surplus Prior Year	$ 247,917,530	$ 279,750,759	$ 327,011,084	$ 376,035,215	
Net Income (loss)	33,660,427	51,273,370	33,358,558	50,786,886	
Change in Net Unrealized Capital Gains (loss)	28,732,807	(39,192,504)	24,837,633	41,136,729	
Change in Nonadmitted Assets	(28,882,804)	38,179,459	(3,047,060)	(134,185)	
Aggregate Write-ins for gains (losses) in Surplus	(1,737,201)	(3,000,000)	(6,125,000)	(3,013,650)	
Net Change in Surplus	$ 31,833,229	$ 47,260,325	$ 49,024,131	$ 88,775,780	
Surplus End of Reporting	$ 279,750,759	$ 327,011,084	$ 376,035,215	$ 464,810,995	1

NOTES TO FINANCIAL STATEMENTS

(1) Capital and surplus $464,810,995

The Organization's capital and surplus was determined to be $464,810,995, as reported in the Annual Statement as of December 31, 2013.

As of December 31, 2013, the Organization's minimum capital requirement was $100,000 as defined by U.C.A. §31A-8-209(1)(a). As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted surplus of $464,810,995, which was greater than the company action level risk-based capital (RBC) requirement of $115,214,850 by $349,596,145.

ACKNOWLEDGEMENT

Scott S. Garduno, FSA, MAAA, Taylor-Walker & Associates, Inc. performed the actuarial review. Representing the Utah Insurance Department from INS Regulatory Services, Inc.; David C. Gordon, CIA, CISA, performed the Information Systems review, and John V. Normile, CFE, participated as a financial examiner. Additionally, Laura A. Shepherd, CFE, Utah Insurance Department, participated as a financial examiner.

They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

Neeraj Gupta, CFE
Examiner-in-charge
INS Regulatory Insurance Services, Inc.

By:
Malis Rasmussen, CFE, SPIR
Examination Supervisor
Utah Insurance Department